

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

21 – 22 October 2009

Question: sbt 26

Topic: Repayment of State Debt

Hansard Page: E6 (22/10/09)

Senator JOYCE asked:

Senator JOYCE—Is that \$57.5 billion that the Commonwealth has guaranteed predominantly to Queensland or predominantly to New South Wales?

Ms Vroombout—New South Wales is \$17.9 billion and Queensland is \$39.6 billion.

Senator JOYCE—In your analysis of this underwriting of the debt, what is the cost of funds that you are putting on that for that debt? In your fiscal analysis you would have to put something.

Mr Ray—We charge them a fee.

Senator JOYCE—What is their cost of funds? Do you do any further analysis on what their cost of funds are, what the actual position of the state is and how it is going? You charge them a fee so you must have done some analysis on how you think they are going.

Ms Vroombout—I can talk a little about how we arrived at the fee and how it is structured. The fee for new issues is 30 basis points and the fee for existing issues is 15 basis points. That 30 basis points was derived as the historic spread between state semi-government securities and Commonwealth government securities.

Senator JOYCE—Did you do any risk analysis on the debt in coming up with the fee basis?

Mr Ray—In the statement of risks in the budget papers the risk is remote and unquantifiable.

Ms Vroombout—The other point to make is that I have outlined the fees for a AAA rated state. There are higher fees for AA+ rated states, so they are charged a 35 basis point fee for new issues and a 20 basis point fee for existing stock. There is an acknowledgement of differences between jurisdictions based on their credit rating.

Senator JOYCE—Have New South Wales or Queensland shown the capacity to repay any of that or is their debt currently still in extension?

Ms Vroombout—I am not aware of any default by either jurisdiction on their debt.

Senator JOYCE—I can just capitalise my interest; it is not a matter of defaulting. Is the trajectory of their debt increasing or decreasing?

Mr Ray—I do not think that we have got the numbers with us, but we can have a look at that for you to see what we can provide. We publish historical numbers in the budget papers, but we can take that on notice.

Answer:

The net debt of the state non-financial public sector, in aggregate, is expected to be approximately \$107 billion in 2009-10. QLD and NSW are expected to have around \$27 billion and \$40 billion net debt in 2009-10, respectively.

Aggregate net debt of the States is forecast to increase over the forward estimates.